

**REMARKS BY
HON. MICHAEL M. REYNA
FCA CHAIRMAN AND CEO
BEFORE THE
20TH ANNUAL FARM CREDIT COUNCIL MEETING
SAN FRANCISCO, CALIFORNIA
JANUARY 20, 2003**

WELCOME

GOOD MORNING. THIS IS THE FOURTH TIME I HAVE BEEN INVITED TO ADDRESS YOUR DISTINGUISHED GROUP AND AS BEFORE ... I AM HONORED. MY SINCERE APPRECIATION GOES TO THE CHAIRMAN AND MEMBERS OF YOUR FARM CREDIT COUNCIL FOR HAVING ME HERE WITH YOU ONCE AGAIN.

ACKNOWLEDGEMENTS

I WOULD BE REMISS IF I DID NOT ALSO TAKE TIME TO ACKNOWLEDGE AND PERSONALLY THANK KEN AUER AND MIKE FREY ... AS WELL AS ALL THE OTHER HARD WORKING AND DEDICATED FARM CREDIT COUNCIL STAFF. ON BEHALF OF THE FCA BOARD AND EMPLOYEES ... LET ME JUST SAY THAT THESE INDIVIDUALS DO A GREAT JOB REPRESENTING YOUR INTERESTS DAY IN AND DAY OUT.

SPEAKING OF THE FCA BOARD AND AGENCY STAFF ... I WOULD LIKE TO ACKNOWLEDGE MY COLLEAGUES WHO ARE HERE WITH ME TODAY. ALTHOUGH YOU MAY BE FAMILIAR WITH DOUG FLORY AND HIS AGRICULTURAL AND BANKING BACKGROUND ... WHAT YOU MAY NOT KNOW IS THAT HE WAS RECENTLY VOTED IN AS THE NEW CHAIRMAN OF THE FARM CREDIT SYSTEM INSURANCE CORPORATION (FCSIC).

ALSO JOINING ME TODAY IS THE MOST RECENT ADDITION TO THE FCA BOARD ... NANCY PELLETT. LIKE DOUG ... NANCY BRINGS WITH HER TO THE FCA BOARD, A WEALTH OF KNOWLEDGE REGARDING AGRICULTURE AND BUSINESS. ... AND WHILE SHE HAS ONLY BEEN ON THE FCA BOARD FOR A BRIEF TIME, I CAN TELL YOU THAT SHE IS A VERY QUICK STUDY AND A HARD WORKER. I ENCOURAGE YOU TO INTRODUCE YOURSELVES TO NANCY AND GET TO KNOW HER ... WHEN YOU DO ... I AM CONFIDENT YOU WILL LIKE HER ... I CERTAINLY DO.

WITH THE ARRIVAL OF BOTH DOUG AND NANCY ... OUR BOARD IS NOW OPERATING AS ORIGINALLY DESIGNED AND CONTEMPLATED BY CONGRESS.

MY THANKS GO OUT TO PRESIDENT BUSH AND THE UNITED STATES SENATE FOR MOVING QUICKLY TO MAKE THIS A REALITY.

I KNOW YOU COME TO THESE MEETINGS WITH QUESTIONS AND CONCERNS ... SO I HOPE YOU SPEAK WITH ME, MY BOARD COLLEAGUES OR OUR AGENCY STAFF, INCLUDING:

- **CHERYL MACIAS, OUR CHIEF OPERATING OFFICER;**
- **ROLAND SMITH, OUR CHIEF EXAMINER;**
- **PHIL SHEBEST, OUR ACTING GENERAL COUNSEL;**
- **MIKE DUNN, OUR DIRECTOR OF POLICY AND ANALYSIS; AND**
- **HAL DECELL, OUR DIRECTOR OF CONGRESSIONAL AND PUBLIC AFFAIRS.**

ALL OF THESE INDIVIDUALS ... ALONG WITH MARK MCBETH, WHO WORKS WITH DOUG FLORY, ... AND CLAIRE RUSK AND JOY BURR, WHO WORK WITH ME, ... WILL BE HERE THROUGHOUT THE MEETING.

OVERVIEW

I WANT TO DISCUSS THREE TOPICS WITH YOU TODAY, INCLUDING:

FIRST ... A BRIEF STATUS REPORT ON FCA ACTIVITIES AND THE CURRENT FINANCIAL CONDITION OF THE FARM CREDIT SYSTEM;

SECOND ... THE PAST, PRESENT AND POTENTIAL FUTURE DIRECTION OF FCA AND THE SYSTEM; AND

THIRD ... MY COMENDATION OF SEVERAL SYSTEM INSTITUTIONS FOR THEIR EXEMPLARY EFFORTS DURING THIS PAST YEAR.

PART I: A BRIEF ACTIVITY AND STATUS REPORT

-- REGULATORY ACTIVITY --

WITH INPUT FROM THE SYSTEM AND THE BROADER PUBLIC – FCA WORKED ON A WIDE RANGE OF REGULATORY ISSUES DURING THIS PAST YEAR, INCLUDING:

- **CAPITAL ADEQUACY;**
- **ELECTRONIC COMMERCE;**
- **OFI LENDING;**
- **LOAN PURCHASES AND SALES;**
- **LOANS TO DESIGNATED PARTIES;**
- **EFFECTIVE INTEREST RATE DISCLOSURE**
- **DISTRESSED LOAN RESTRUCTURING,**

- **TERMINATION OF FARM CREDIT STATUS; AND**
- **YOUNG BEGINNING AND SMALL FARMERS.**

WITH REGARD TO THIS LAST ISSUE, THE FCA BOARD HELD A PUBLIC MEETING IN KANSAS CITY, MISSOURI, WHICH DREW A GOOD CROSS-SECTION OF OPINION. WE HAD A NUMBER OF GREAT SPEAKERS AT THAT HEARING AND MY PERSONAL THANKS TO ALL THOSE OF YOU FROM THE SYSTEM WHO CAME TO SHARE THE GOOD WORK YOU AND YOUR COLLEAGUES ARE DOING AROUND THE COUNTRY.

LOOKING FORWARD ... FCA'S UPCOMING REGULATORY AGENDA WILL BE EVEN BUSIER. LET ME SAY THAT FIRST AND FOREMOST ... I INTEND TO SEEK RENEWAL OF FCA'S REQUEST FOR SUGGESTIONS FROM THE SYSTEM AND THE PUBLIC ON WAYS WE CAN REDUCE REGULATORY BURDEN. I ALSO ANTICIPATE FCA WILL SEEK INPUT ON:

- **SCOPE AND ELIGIBILITY;**
- **RESTATED MARKET ACCESS AGREEMENT (MAA);**
- **APPROPRIATE REGULATORY TREATMENT OF LOAN SYNDICATIONS;**
- **REDESIGN OF THE AGENCY'S LOAN ACCOUNTING AND RECORD-KEEPING SYSTEM (LARS);**
- **RISK WEIGHTING OF MORTGAGE-BACKED SECURITIES AND ASSET-BACKED SECURITIES;**
- **SYSTEM GOVERNANCE AND FINANCIAL DISCLOSURES;**
- **VARIOUS CAPITAL ISSUES RELATED TO THE NEW BASEL ACCORD;**
- **JOINT AND SEVERAL LIABILITY; AND**
- **REVISIONS TO THE FARMER MAC RISKED-BASED CAPITAL RULE, AS WELL AS OTHER RELATED REGULATORY CHANGES**

-- CORPORATE ACTIVITY --

WITH REGARD TO CORPORATE ACTIVITY, THE SYSTEM HAS BEEN BUSY ... AND CONSEQUENTLY, SO TOO HAS FCA. YOU MAY BE SURPRISED TO LEARN THAT THERE ARE NO MORE FREESTANDING PCA'S REMAINING WITHIN THE SYSTEM.

DURING THIS LAST YEAR, THE SYSTEM CONTINUED TO EVOLVE THROUGH MERGER AND CONSOLIDATION ... AND AS A RESULT ... FCA ANALYZED AND PROCESSED SOME 24 APPLICATIONS INVOLVING CORPORATE CHANGES. SEVENTY EIGHT PERCENT OF ALL INSTITUTIONS IN THE SYSTEM ARE NOW STRUCTURED AS AGRICULTURAL CREDIT ASSOCIATIONS (ACA) ... AND BENEFIT FROM LOWER OPERATING COSTS AND GREATER FLEXIBILITY TO SERVE THEIR CUSTOMERS.

TWO OF THE MOST SIGNIFICANT RESTRUCTURINGS WE WORKED ON LAST YEAR INVOLVED THREE SYSTEM BANKS AND TWO OF THE LARGEST

INSTITUTIONS IN THE SYSTEM. NORTHWEST FARM CREDIT SERVICES CHOSE TO REAFFILIATE FROM AGAMERICA TO COBANK ... WHILE AGAMERICA -- WITH ITS SOLE REMAINING INSTITUTION ... FARM CREDIT SERVICES OF AMERICA -- HAS CHOSEN TO MERGE WITH AGRIBANK. ALSO OF NOTE ARE THE PLANS INVOLVING THE WESTERN FARM CREDIT BANK AND THE FARM CREDIT BANK OF WICHITA, WHICH ... WHEN FORMALLY MERGED, WILL BECOME U. S. AGBANK, FCB.

AS OF JANUARY 1, 2003 ... THERE ARE 113 TOTAL INSTITUTIONS WITHIN THE SYSTEM, INCLUDING 99 ASSOCIATIONS, 6 BANKS AND 8 SERVICE CORPORATIONS. WHILE THERE HAS BEEN SIGNIFICANT CONSOLIDATION AND RESTRUCTURING AT THE ASSOCIATION LEVEL IN RECENT YEARS ... I BELIEVE THIS TREND WILL SLOW DURING 2003 GIVEN THAT MOST EASILY ACHIEVABLE EFFICIENCIES HAVE BEEN SECURED.

-- SYSTEM PERFORMANCE AND FINANCIAL CONDITION --

DURING 2002 ... AS HAS BEEN EXPERIENCED OVER THE LAST DECADE ... THE SYSTEM HAS HAD A SOLID RECORD OF PERFORMANCE. AS OF SEPTEMBER 30, 2002 ... SYSTEM ASSETS TOTALED CLOSE TO \$108 BILLION AND GROSS LOAN VOLUME STOOD AT APPROXIMATELY \$88 BILLION. THIS COMPARES TO TOTAL SYSTEM ASSETS OF \$99 BILLION AND GROSS LOANS OF \$80 BILLION ... JUST A YEAR EARLIER.

NOTWITHSTANDING THIS RAPID GROWTH ... CAPITAL LEVELS HAVE CONTINUED TO INCREASE THROUGH RETAINED EARNINGS AND STOCK PURCHASES. I AM PLEASED TO SAY THAT ASSET QUALITY HAS REMAINED HIGH OVERALL. MOREOVER ... OUR REGULAR FINANCIAL EXAMINATIONS HAVE CONCLUDED THAT THE SYSTEM AND EACH OF ITS INSTITUTIONS ARE FUNDAMENTALLY SOUND IN ALL MATERIAL RESPECTS. ALSO OF NOTE IS THE FACT THAT THE SYSTEM HAS KNOWLEDGEABLE AND EXPERIENCED MANAGERS AT ALL LEVELS ... AND YEAR-OVER-YEAR EARNINGS ARE UP.

AND THOUGH THERE HAS BEEN A SLIGHT INCREASE IN REQUIRED CORRECTIVE ACTIONS RELATED TO REGULATORY COMPLIANCE ... ALL SYSTEM INSTITUTIONS ... EXCEPT ONE ... HAVE A CAMELS RATING OF EITHER "1" OR "2" ... THE HIGHEST RATING CATEGORIES ON A SCALE OF ONE-TO-FIVE. THE LONE EXCEPTION IS A "3" RATED INSTITUTION THAT IS CURRENTLY UNDER VERY CLOSE SUPERVISION. THE BOTTOM-LINE IS THAT THE SYSTEM AS A WHOLE ... HAS HAD ANOTHER GREAT YEAR AND CONTINUES TO REMAIN FINANCIALLY STRONG.

PLEASE GIVE YOURSELVES A ROUND OF APPLAUSE.

LOOKING FORWARD QUICKLY ... YOU MAY BE INTERESTED TO KNOW THAT FCA EXAMINATIONS DURING 2003 WILL FOCUS ON TWO KEY AREAS:

FIRST, CONTINUED MONITORING OF SYSTEM PROGRESS IN MEETING THE NEEDS OF CREDITWORTHY YBS BORROWERS, WHILE MAINTAINING SAFETY AND SOUNDNESS AND COMPLIANCE WITH ALL REGULATIONS.

SECOND, OUR EXAMINATIONS DETERMINE WHETHER EACH SYSTEM INSTITUTION HAS AN EFFECTIVE SYSTEM OF INTERNAL CONTROLS IN PLACE. AS YOU KNOW, INTERNAL CONTROLS SERVE AS CHECKS AND BALANCES AGAINST UNDESIRED ACTIONS AND PROVIDE A REASONABLE ASSURANCE THAT INSTITUTIONS WILL OPERATE IN A SAFE AND SOUND MANNER.

IN PARTICULAR, OUR EXAMINERS WILL CONSIDER A NUMBER OF FACTORS WHEN ASSESSING AN INSTITUTION'S INTERNAL CONTROLS, INCLUDING:

- **MANAGEMENT PHILOSOPHY AND OPERATING STYLE;**
- **ORGANIZATIONAL STRUCTURE;**
- **METHODS OF ASSIGNING AUTHORITY AND RESPONSIBILITY;**
- **PERSONNEL POLICIES AND PRACTICES;**
- **PERFORMANCE ACCOUNTABILITY;**
- **OTHER EXTERNAL INFLUENCES; AND**
- **AUDIT AND REVIEW PROGRAMS.**

-- ISSUES REQUIRING SPECIAL MENTION AND ATTENTION --

I HAVE SPOKEN TO YOU ABOUT THE FINANCIAL CONDITION OF THE SYSTEM AND HIGHLIGHTED A NUMBER OF REGULATORY ISSUES AND TRENDS IN CORPORATE ACTIVITY. AT THIS TIME I WOULD LIKE TO EXPAND ON TWO ISSUES THAT I BELIEVE REQUIRE SPECIAL MENTION AND ATTENTION. AND ... OF ALL THE ISSUES BEFORE THE SYSTEM IN THE NEAR TERM ... I FIND THESE TWO -- RAPID GROWTH AND BOARD GOVERNANCE -- THE MOST TIMELY AND SIGNIFICANT ONES FOR YOU AS WELL AS US.

AS SHARED WITH YOU EARLIER, THE SYSTEM IS EXPERIENCING A PERIOD OF RAPID LOAN GROWTH. AND ... WHILE THIS CAN BE CAUSE FOR GREAT CELEBRATION FOR A NUMBER OF REASONS INCLUDING THE OPPORTUNITY TO INCREASE EARNINGS AND REGAIN PREVIOUSLY LOST MARKET SHARE... IT SHOULD ALSO SERVE AS A YELLOW FLAG OF CAUTION.

WHILE THE SYSTEM'S CAPITAL LEVELS HAVE CONTINUED TO INCREASE AS LOAN VOLUME HAS EXPANDED ... I CAN TELL YOU AS A FORMER LENDER MYSELF THAT UNBRIDLED GROWTH HAS THE POTENTIAL TO PLACE SIGNIFICANT STRESS ON INTERNAL CONTROL SYSTEMS OF AN INSTITUTION AND LEAD TO ASSET QUALITY PROBLEMS SEVERAL YEARS DOWN THE LINE IF NOT HANDLED VERY SKILLFULLY.

I THINK IT IS IMPORTANT TO NOTE THAT MORE THAN A FAIR AMOUNT OF THIS LOAN GROWTH HAS COME IN THE FORM OF LOAN SYNDICATIONS AND PARTICIPATIONS. WHILE THERE ARE NO SIGNIFICANT SAFETY AND SOUNDNESS ISSUES ON THE IMMEDIATE HORIZON ... FCA CONTINUES TO STUDY AND WATCH THIS PORTION OF THE SYSTEM'S PORTFOLIO VERY CLOSELY. AND... I URGE INSTITUTIONS PURCHASING THESE CREDITS FROM ORIGINATING LENDERS TO DO YOUR OWN DUE DILIGENCE ON THESE LOANS ... MAKE SURE YOU TRULY KNOW AND UNDERSTAND JUST WHAT YOU ARE PURCHASING.

RAPID LOAN GROWTH BRINGS IN TO FOCUS ANOTHER VERY IMPORTANT AREA: BOARD GOVERNANCE.

I UNDERSTAND THAT MY GOOD FRIEND AND COLLEAGUE DOUG FLORY HAS SPOKEN TO MANY OF YOU ABOUT THIS ISSUE. SO ... WHEN HE TELLS YOU THAT HE BELIEVES EVERY SYSTEM INSTITUTION SHOULD HAVE A STANDING AUDIT COMMITTEE OF THE BOARD ... YOU NEED TO KNOW ... I THINK HE IS RIGHT.

AND WHEN DOUG TELLS YOU THAT ... GIVEN THE INCREASED SIZE AND COMPLEXITY OF OPERATIONS WITHIN YOUR INSTITUTIONS ... EACH BOARD OF DIRECTORS SHOULD CONSIDER ADDING ADDITIONAL OUTSIDE DIRECTORS TO ENHANCE THE DEPTH AND BREADTH OF SPECIALIZED EXPERIENCE ON THEIR BOARD ... YOU NEED TO KNOW ... I THINK HE IS RIGHT.

PLEASE REMEMBER THAT GOOD BOARD GOVERNANCE IS THE RESULT OF ACTIVE AND ENGAGED BOARD MEMBERS WHO UNDERSTAND THEY ARE PERSONALLY RESPONSIBLE AND ACCOUNTABLE FOR THE SAFETY AND SOUNDNESS OF THEIR INSTITUTION.

PART II: FCA AND THE SYSTEM AT A CROSSROADS

I WOULD LIKE TO SHIFT GEARS NOW AND TALK ABOUT THE PAST, PRESENT AND POTENTIAL FUTURE DIRECTION OF FCA AND THE SYSTEM.

-- A BRIEF STORY – SETTING THE STAGE --

LIKE MANY OF YOU I FLEW TO SAN FRANCISCO TO ATTEND THIS MEETING. WHEN I ARRIVED AT THE AIRPORT EARLY YESTERDAY MORNING, I GOT OUT OF MY CAB ... WENT INSIDE QUICKLY ... AND HEADED TOWARDS MY AIRLINE COUNTER. ON MY WAY THERE, I WAS GREETED BY THE BOOMING VOICE OF AN AIRLINE EMPLOYEE WARNING ME AND OTHER PASSENGERS THAT ... “EVERYTHING HAS CHANGED.” ... AND, SHE KEPT BOOMING IT OVER AND OVER AGAIN ... EVERYTHING HAS CHANGED ... EVERYTHING HAS CHANGED. AND ... WHEN I TRIED TO APPROACH MY

AIRLINE COUNTER ... I WAS STOPPED, AND INSTRUCTED TO HEAD IN A DIFFERENT DIRECTION. IT WAS THEN THAT I FINALLY REALIZED ... THE AIRLINE EMPLOYEE WAS RIGHT ... EVERYTHING REALLY HAD CHANGED.

THIS INCIDENT REMINDED ME OF A BRIEF STORY THAT I WOULD LIKE TO SHARE WITH YOU. THE STORY IS ABOUT A STRONG YOUNG MAN ... A MAN PROBABLY NOT TOO DIFFERENT THAN ONE OF YOUR OWN SONS. THOUGH HE IS DOING WELL TODAY, THIS WAS NOT ALWAYS THE CASE ... AND, IN FACT, HE HAD SOME SERIOUS CHALLENGES AS HE WAS GROWING UP. YOU SEE ... HE WAS SEVERELY INJURED IN AN ACCIDENT, DURING WHICH HE ALSO LOST HIS PARENTS.

THE SITUATION WAS VERY CRITICAL ... SO, THE COURTS STEPPED IN AND APPOINTED A GUARDIAN FOR THIS YOUNG MAN TO OVERSEE HIS RECOVERY. AND ... AS COURTS DO ... THEY SET FORTH CERTAIN RULES TO ENSURE THE YOUNG MAN REGAINED HIS HEALTH AND COULD GO ON TO LEAD A PRODUCTIVE LIFE. THE YOUNG MAN'S REGIME WAS STRICT -- REGULAR DOCTOR VISITS, A REHAB PLAN AND, OF COURSE, PRESCRIBED MEDICATIONS. ... AND, IT WAS THE JOB OF THE GUARDIAN TO MAKE SURE HE FOLLOWED EXACTLY.

AS YOU MIGHT IMAGINE ... THE WHOLE SITUATION WAS QUITE FRUSTRATING FOR THE YOUNG MAN – HIS WHOLE LIFE HAD CHANGED. HE HAD BEEN INVOLVED IN A SERIOUS ACCIDENT ... ONE THAT TOOK THE LIFE OF HIS PARENTS ... AND NEARLY HIS TOO. HIS ROAD TO RECOVERY HAD BEEN LONG AND IF THE MEDICAL VISITS AND REHAB PROGRAM WERE NOT ENOUGH ... HE HAD A COURT APPOINTED GUARDIAN LOOKING OVER HIS SHOULDER TWENTY FOUR HOURS A DAY GUIDING AND SUPERVISING HIS RECOVERY EVERY STEP OF THE WAY.

DON'T BE SURPRISED IF THE STORY SOUNDS A BIT FAMILIAR ... YOU SEE ... THE YOUNG MAN IN THE STORY IS THE FARM CREDIT SYSTEM ... AND THE ACCIDENT IS THE CRISIS IN THE MID-TO-LATE EIGHTIES THAT LED TO A FINANCIAL BAILOUT OF THE SYSTEM AND REFORM OF BOTH THE SYSTEM AND FCA BY CONGRESS. THE YOUNG MAN'S PARENTS WERE THE PRIOR FCA BOARD OF GOVERNORS, WHILE HIS COURT-APPOINTED GUARDIAN IS THE CURRENT THREE-MEMBER FCA BOARD OF DIRECTORS. AND, THE COURT IN THE STORY IS, OF COURSE, REALLY CONGRESS.

-- FCA AND THE SYSTEM ARE AT A CROSSROADS --

WHY DO I SHARE THIS STORY WITH YOU TODAY? I SHARE IT FOR A NUMBER OF REASONS ... BUT MOST OF ALL ... BECAUSE IT UNDERSCORES THE FACT THAT "EVERYTHING HAS CHANGED." MY FRIENDS ... I BELIEVE WE ARE NOW AT A VERY IMPORTANT CROSSROADS.

TAKE FOR EXAMPLE THE VERY DIFFERENT ROLE THAT FCA HAD IN THE YEARS LEADING UP TO THE CRISIS IN THE MID-TO-LATE EIGHTIES. RATHER THAN GOVERNANCE, AS WAS THE RESPONSIBILITY OF THE PRIOR 13-MEMBER BOARD OF GOVERNORS ... FCA'S RESPONSIBILITY IS GUIDANCE AND SUPERVISION. AND ... UNLIKE THE BOARD OF GOVERNORS WHO SERVED AS AN EXTENSION AND PART OF THE SYSTEM WHILE SETTING ITS DIRECTION ... FCA, AS A FEDERAL AGENCY, HAS A DIFFERENT AND SPECIAL "ARMS-LENGTH" RELATIONSHIP WITH THE SYSTEM.

WHILE MANY PEOPLE TALK ABOUT THE NEED FOR AN "ARMS-LENGTH" RELATIONSHIP BETWEEN A REGULATOR AND THE REGULATED ENTITY ... MUCH CONFUSION EXISTS ABOUT JUST WHAT AN "ARMS-LENGTH" RELATIONSHIP REALLY IS IN PRACTICE.

AN "ARMS-LENGTH" REGULATOR IS INDEPENDENT, ... IN OTHER WORDS ... IT IS NOT UNDULY INFLUENCED ... NOR IS IT CONTROLLED OR GOVERNED BY THE ENTITIES THAT IT REGULATES. SUCH A REGULATOR ALSO IS OBJECTIVE ... OR, IN OTHER WORDS ... FAIR AND BALANCED IN ITS DECISION-MAKING. A REGULATOR THAT IS NOT BOTH INDEPENDENT AND OBJECTIVE ... REALLY HAS NO CREDIBILITY AND CANNOT TRULY SPEAK WITH AUTHORITY.

FOR FCA ... IT MEANS THAT AS WE TACKLE REGULATORY ISSUES ... WE MUST BE OPEN TO INPUT PROVIDED BY BOTH THE SYSTEM ... AND THE BROADER GENERAL PUBLIC. THIS IS AN IMPORTANT POINT THAT WAS HIGHLIGHTED BY A NUMBER OF RESPONDENTS IN A RECENT SURVEY CONDUCTED BY FCA'S INSPECTOR GENERAL. THE INSPECTOR GENERAL ... AS YOU MAY KNOW ... IS RESPONSIBLE FOR ENSURING THAT FCA OPERATES IN AN EFFECTIVE AND EFFICIENT MANNER, AND WITHOUT INSTANCES OF FRAUD, WASTE OR ABUSE IN OUR PROGRAMS.

AND ... WHEN IT COMES TO OUR DECISION-MAKING ... FCA -- AS AN "ARMS LENGTH" REGULATOR -- MUST STRIVE TO BRING THE SPECIAL INTERESTS OF THE SYSTEM -- A GOVERNMENT SPONSORED ENTERPRISE -- IN LINE WITH THE BROADER INTERESTS OF THE PUBLIC ... AND BY DOING SO, CREATE AN EFFECTIVE WIN-WIN SITUATION.

THIS IS THE ESSENCE OF A TRULY EFFECTIVE "ARMS-LENGTH" REGULATOR, AND WHAT FCA STRIVES TO DO AND TO BE EVERY DAY.

THE POINT HERE IS ... LIKE THE YOUNG MAN IN MY STORY WHO LOST HIS PARENTS IN THE SERIOUS ACCIDENT ... OUR ROLE AND RESPONSIBILITY HAS CHANGED SIGNIFICANTLY SINCE CONGRESS ELIMINATED THE PRIOR 13-MEMBER BOARD OF GOVERNORS.

EVERYTHING HAS CHANGED ... AND NOT JUST FOR FCA.

IN MY EARLIER COMMENTS, I NOTED THAT THERE HAS BEEN SIGNIFICANT MERGER ACTIVITY WITHIN THE SYSTEM. THIS ACTIVITY SIGNALS AN IMPORTANT SHIFT WITHIN THE SYSTEM. IN FACT, I BELIEVE THE NEXT BIG PUSH FOR CONSOLIDATION WILL OCCUR AT THE BANK LEVEL AS EVIDENCED BY RECENT ACTIVITY.

ANOTHER REASON THIS IS LIKELY TO OCCUR IS THAT THE ROLE AND RESPONSIBILITY OF SYSTEM BANKS HAS CHANGED SIGNIFICANTLY OVER THE YEARS. WITH THE EXCEPTION OF COBANK ... SYSTEM BANKS – HAVING DOWNLOADED CAPITAL TO THEIR ASSOCIATIONS -- ARE BECOMING MORE AND MORE WHOLESALE IN NATURE.

WHILE I DO NOT BELIEVE FCA WILL TAKE A FORMAL POSITION ON THE ISSUE ... THE LOOMING QUESTION FOR THE SYSTEM TODAY IS: HOW MANY WHOLESALE BANKS DOES THE SYSTEM REALLY NEED TO FUNCTION SUCCESSFULLY?

WITH ONE CENTRAL FARM CREDIT BANK IN OPERATION, MANY MILLIONS OF DOLLARS IN COST SAVINGS COULD BE ACHIEVED EASILY. THE PRIMARY BENEFICIARIES OF THESE POTENTIAL BANK MERGERS, OF COURSE, WOULD BE YOU ... AND ALL THE OTHER OWNER-BORROWERS OF THE SYSTEM.

BEYOND THE FINANCIAL SAVINGS AND OPERATIONAL EFFICIENCIES ... THE CENTRAL BANK CONCEPT WOULD GIVE THE SYSTEM WHAT IT HAS LACKED SINCE THE LAST CRISIS ... A SINGLE GOVERNING BODY TO RESOLVE INTERNAL DISPUTES AND THE ABILITY TO SPEAK EFFECTIVELY WITH A SINGLE VOICE ON IMPORTANT ISSUES.

LET ME NOTE ... I DO NOT MEAN TO SUGGEST THAT THE FARM CREDIT COUNCIL SHOULD NOT EXIST. IN FACT ... I SEE THE COUNCIL AND ITS EFFORTS AS CONTINUING TO BE ESSENTIAL TO A SINGLE CENTRALIZED FARM CREDIT BANK.

MOREOVER ... IN TERMS OF MY EARLIER STORY ... SUCH A CHANGE WOULD GIVE THE YOUNG MAN HIS PARENTS BACK ... AND I THINK YOU CAN APPRECIATE WHAT A DIFFERENCE THAT WOULD MAKE IN THE QUALITY OF HIS LIFE.

-- RESPECTING THE PAST AND EMBRACING THE FUTURE --

MY FRIENDS ... THE SYSTEM AND FCA ARE AT A CROSSROADS ... BUT I BELIEVE WE SHARE A VERY IMPORTANT GOAL: THE HEALTH AND WELL-BEING OF NOT ONLY SYSTEM ... BUT ALSO OF AGRICULTURE AND RURAL AMERICA. WITH THIS AS OUR COMMON PURPOSE ... LET US RESPECT AND

VALUE THE HISTORY OF THIS NATION'S OLDEST GOVERNMENT SPONSORED ENTERPRISE, AND NEVER BE AFRAID TO EMBRACE THE FUTURE.

FROM THE COUNTRY LIFE COMMISSION AND THE EARLIEST BEGINNINGS OF THE FARM CREDIT SYSTEM UNTIL TODAY ... THE SYSTEM HAS ALWAYS BEEN VITAL TO THE FUTURE OF AGRICULTURE AND RURAL AMERICA. AND ... NOTWITHSTANDING THE CRISIS IN THE MID-TO-LATE EIGHTIES AND PERSISTENT CRITICS ... YOU AND I ... AND OVER 400,000 FARMERS AND RANCHERS ... KNOW THAT THE SYSTEM HAS NOT OUTLIVED ITS PURPOSE OR ITS USEFULNESS.

AS I VISIT WITH YOU ON MY TRAVELS AROUND THE COUNTRY ... I SEE THE AGRICULTURAL DIVERSITY THAT EXISTS AND I AM REMINDED OF THE EVER CHANGING LANDSCAPE OF TODAY'S AGRICULTURAL OPERATIONS. YOU AND I ALSO KNOW THAT THE FINANCIAL SERVICES INDUSTRY HAS CHANGED SIGNIFICANTLY IN RECENT DECADES AS WELL ... AND CONTINUES TO CHANGE EVEN MORE EVERY DAY.

THERE IS ANOTHER SECRET YOU AND I BOTH KNOW ... AND THAT IS THAT THE FARM CREDIT ACT IS WOEFULLY OUTDATED. THE REAL QUESTION BEFORE US TODAY IS: WHAT ARE WE GOING TO DO ABOUT IT? WILL WE SIT BACK AND CONTINUE TO WORK ON THE MARGINS, OR WILL WE CALL UPON CONGRESS TO BEGIN THE PROCESS OF UPDATING THE FARM CREDIT ACT?

I WILL TELL YOU WHERE I STAND ON THE ISSUE ... LIKE THE COURT APPOINTED A GUARDIAN IN MY STORY ... CONGRESS APPOINTED FCA AS THE GUARDIAN OF THE SYSTEM ... AND AS SUCH, I BELIEVE IT IS OUR DUTY AND RESPONSIBILITY TO ALERT THE DECISION MAKERS IN CONGRESS TO THE CHANGES WE SEE AND ADVISE THEM ACCORDINGLY ... WHETHER OR NOT THEY CHOOSE TO ACT NOW ... LATER ... OR EVEN AT ALL.

AS I TALK TO PEOPLE ... THERE SEEMS TO BE LITTLE DOUBT THAT THE FARM CREDIT ACT NEEDS TO BE UPDATED TO ENABLE THE SYSTEM TO BETTER ADDRESS CHALLENGES FACING AGRICULTURE AND RURAL AMERICA TODAY.

AMONG OTHER THINGS, SUCH AN UNDERTAKING COULD FIRST AND FOREMOST DELETE OUTDATED AND OBSOLETE PROVISIONS OF THE ACT. CHANGES TO THE ACT COULD CREATE NEW OPPORTUNITIES FOR THE SYSTEM TO WORK MORE CLOSELY WITH NON-SYSTEM LENDERS. SUCH AN UPDATE MIGHT ALSO REALIGN THE SYSTEM'S LEGAL "JOINT AND SEVERAL LIABILITY" FROM SYSTEM BANKS -- WHERE IT RESIDES NOW -- TO SYSTEM ASSOCIATIONS ... WHERE MOST OF THE CAPITAL AND THE RISK RESIDE TODAY. I AM SURE YOU COULD THINK OF OTHER POSSIBLE CHANGES AS WELL.

... AND SO YOU DON'T THINK THAT MY CALL FOR SUCH AN UPDATE IS LIMITED TO THE SYSTEM ... I BELIEVE CHANGES ALSO COULD BE MADE TO RESTRUCTURE FCA AND THE FARM CREDIT SYSTEM INSURANCE CORPORATION (FCSIC). FOR EXAMPLE, CONGRESS MIGHT CONSIDER ENHANCING EFFECTIVENESS AND EFFICIENCIES BY MERGING THESE TWO ORGANIZATIONS INTO A SINGLE REGULATORY AGENCY.

SUCH A MOVE WOULD MORE CLEARLY FOCUS FCA'S PUBLIC MISSION AND REDUCE THE ASSESSMENTS PAID BY THE SYSTEM TO FINANCE THE AGENCY'S REGULATORY OVERSIGHT. THIS COULD BE ACCOMPLISHED BY SHIFTING FCA'S FUNDING SO THAT IT IS PAID FOR FROM INTEREST EARNINGS ON THE FARM CREDIT SYSTEM INSURANCE FUND.

THERE NO DOUBT WILL BE NAYSAYERS ABOUT THE VALUE AND WISDOM OF ATTEMPTING TO UPDATE THE FARM CREDIT ACT. THE NAYSAYERS DON'T BOTHER ME THOUGH ... BECAUSE THERE HAVE ALWAYS BEEN NAYSAYERS ... WHETHER THEY DOUBTED THAT MAN COULD MAKE IT TO THE MOON AND RETURN SAFELY ... OR ... LET ALONE EVEN FLY.

YOU KNOW ... SOME PEOPLE SAY THAT POLITICS IS THE ART OF THE POSSIBLE ... I AGREE ... AND I SAY YOU DON'T KNOW WHAT IS POSSIBLE UNTIL YOU TRY.

MY FRIENDS ... AS WE CONTEMPLATE WHICH PATH TO TAKE AT THIS CROSSROADS ... I AM HEARTENED AND ENCOURAGED BY THE FACT THAT THERE IS NO LACK OF TALENTED PEOPLE WITHIN THE SYSTEM OR FCA TO TAKE ON THIS CHALLENGE. I BELIEVE OUR CHOICE IS CLEAR ... THE KEY QUESTION IS: DO WE HAVE THE COURAGE TO DO WHAT WE KNOW IN OUR HEARTS AND MINDS IS RIGHT AND MUST BE DONE?

I BELIEVE WE OWE IT TO AGRICULTURE AND RURAL AMERICA TO FIGHT THE GOOD FIGHT, AND I INVITE YOU TO JOIN ME IN BEGINNING A DIALOGUE IN THE UPCOMING MONTHS ABOUT HOW THIS CAN BEST BE ACCOMPLISHED.

I AM READY ... ARE YOU?

THIS CONCLUDES MY MAIN COMMENTS FOR TODAY ... I WOULD NOW LIKE TO RECOGNIZE SOME OF YOUR PEERS FOR THEIR OUTSTANDING EFFORTS DURING THIS PAST YEAR.

CHAIRMAN'S COMMENDATION

YOU KNOW ... FINANCIAL REGULATORS HAVE A RANGE OF TOOLS THEY CAN USE TO COMPEL AN INSTITUTION THEY OVER SEE TO OPERATE IN

A SAFE AND SOUND MANNER ... AND MOST OF THESE TOOLS – THINGS LIKE ENFORCEMENT ACTIONS, CIVIL MONEY PENALTIES OR OTHER REQUIREMENTS -- TEND TO BE NEGATIVE IN NATURE. I HAVE NEVER BELIEVED THAT THESE ARE THE ONLY TOOLS ... OR EVEN THE BEST TOOLS ... WE, AS A REGULATOR, HAVE AVAILABLE TO US. IN FACT, I BELIEVE WE HAVE SOME VERY POSITIVE TOOLS WE CAN BRING TO BEAR WHEN WORKING WITH INSTITUTIONS TO EFFECT CHANGES IN THEIR ACTIVITIES.

AS YOU MAY RECALL, LAST YEAR I INTRODUCED ONE SUCH POSITIVE TOOL WHEN I ACKNOWLEDGED AND COMMENDED SEVERAL SYSTEM INSTITUTIONS FOR THEIR EFFORTS TO SERVE YOUNG, BEGINNING AND SMALL FARMERS AND OTHER INSTITUTIONS FOR THEIR USE OF AGRICULTURAL LOAN GUARANTEE PROGRAMS. I MUST SAY THAT I AM VERY PLEASED WITH THE CONTINUED PROGRESS SYSTEM INSTITUTIONS HAVE MADE IN THESE TWO IMPORTANT AREAS.

AGAIN THIS YEAR, I ASKED FCA STAFF TO REVIEW THE EFFORTS OF ALL SYSTEM INSTITUTIONS AND TO PRESENT ME THOSE INSTITUTIONS THAT HAVE DONE AN EXEMPLARY JOB WITH REGARD TO THEIR YBS FARMER PROGRAM OR THEIR AGRICULTURAL LOAN GUARANTEE PROGRAM.

THE FCA STAFF WOULD BE THE FIRST TO TELL YOU THAT THERE ARE MANY EXCELLENT PROGRAMS IN OPERATION AROUND THE COUNTRY AND THAT SINGLING A HANDFUL OUT FOR RECOGNITION IS NOT AN EASY TASK – UNDOUBTEDLY, YOU RISK FAILING TO ACKNOWLEDGE AN INSTITUTION WHOSE EFFORTS ARE TRULY A CUT ABOVE. IF YOU ARE ONE OF THOSE INSTITUTIONS ... I SAY KEEP UP THE GREAT WORK ... NEXT YEAR IS ONLY 365 DAYS AWAY.

WHILE WHO IS SINGLED OUT FOR COMMENDATION IS ULTIMATELY A JUDGMENT CALL, FCA STAFF DO EVALUATE YBS PROGRAMS USING A NUMBER OF SOLID CRITERIA, INCLUDING THE EXTENT TO WHICH ASSOCIATION PROGRAMS:

- OFFER AN EDUCATIONAL COMPONENT;**
- PROVIDE FOR EXTENSIVE OUTREACH;**
- MAKE EFFECTIVE USE OF FINANCIAL INCENTIVES, SUCH AS DIFFERENTIAL LOAN UNDERWRITING STANDARDS, LOWER FEES AND OR INTEREST RATES;**
- YEAR-OVER-YEAR INCREASE IN PROGRAM ACTIVITY, ETC.; AND, THE OVERALL EFFECTIVENESS OF AN INSTITUTION'S YBS PROGRAM.**

WITH REGARD TO AGRICULTURAL LOAN GUARANTEE PROGRAMS, FCA STAFF EVALUATED THE NUMBER OF GUARANTEE LOANS, THE DOLLAR VOLUME OF GUARANTEE LOANS, AND THE PROPORTION OF GUARANTEE LOANS IN AN INSTITUTION'S OVERALL PORTFOLIO.

TODAY ... I AM PRESENTING THREE INSTITUTIONS WITH A “CHAIRMAN’S COMMENDATION” FOR THEIR EXEMPLARY YBS PROGRAMS:

- **FARM CREDIT SERVICES OF NORTH DAKOTA**
- **FIRST AG CREDIT, ACA**
- **SOUTHWEST GEORGIA FARM CREDIT**

WHILE SYSTEM BANKS DO NOT DIRECTLY ADMINISTER YBS PROGRAMS, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO RECOGNIZE:

- **AG FIRST BANK**

... FOR THE YBS VIDEO THEIR BANK RECENTLY PRODUCED DOCUMENTING SOME OF THE VERY FINE WORK DONE IN THEIR DISTRICT ... AND INDIRECTLY, AROUND THE SYSTEM.

SIMILARLY ... FOR THE EXEMPLARY USE OF AGRICULTURAL LOAN GUARANTEE PROGRAMS, I AM PRESENTING A “CHAIRMAN’S COMMENDATION” TO:

- **FARM CREDIT OF WESTERN OKLAHOMA, ACA**
- **FIRST PIONEER FARM CREDIT, ACA**

PLEASE JOIN ME IN RECOGNIZING THEM FOR THEIR OUTSTANDING EFFORTS THIS PAST YEAR.

THANK YOU AGAIN FOR THE INVITATION TO SPEAK TODAY.

GOD BLESS YOU ... AND GOD BLESS AGRICULTURE AND RURAL AMERICA!